

Premium Rate Approval – Decision Summary

Insurer: CDPHP (95491)
Line of Business: Individual
Filing Type: 3231(e)(1)/4308(c)
Effective Date: 1/1/2019
Affected Members: 5,487 (as of 3/31/2018)
On/Off NY State of Health: Both
2018 Premium (Est): \$37,400,000
State Tracking Number: 2018050195
SERFF Tracking Number: CAPD-131471166

Summary:

Requested	Approved	Modification
5.1%	-1.9%	-137.0%

DFS's analysis included the following "requested" versus "approved" assumptions for the various parts of the application:

	<u>Requested</u>	<u>Approved</u>
1. Annual Claim Trend Rate	5.5%	6.5%
2. Administrative Expense Ratio	10.0%	10.1%
3. Profit Objective (% of premium, pre-tax)	1.0%	1.0%
4. Medical Loss Ratio ("MLR")	89.0%	88.9%

Analysis:

DFS reviewed the material that CDPHP submitted with its rate application, which included the projected trend assumptions, administrative expense assumptions, profit objectives, recent premium and claims experience, and the development of the needed rate change, as well as comparisons to similar historical data in each of these areas. DFS took into account comments on the rate application received from policyholders and consumer groups. DFS reviewed the application using sound actuarial assumptions and methods, considering the financial condition of the insurer.

Membership and Average Monthly Premium:

Date	Membership
December 31, 2016	5,031
December 31, 2017	4,663
March 31, 2018	5,487

The monthly premium per employee without dependents for calendar year 2018 for this line of business averaged \$607.65.

Prior Applications:

Date	Requested	Approved
2016	5.7%	2.5%
2017	13.1%	13.9%
2018	15.2%	14.9%

Claims Trend:

The claims trend assumptions of insurers submitting rate adjustment applications to DFS varied widely.

CDPHP assumed a claims trend of 5.5%. Based on information submitted by CDPHP, the average requested trend assumptions of all insurers, and external studies on medical cost projections, DFS finds CDPHP's claims trend assumption to be unreasonable and adjusts it to 6.5%.

Federal Risk Adjustment:

Under the Affordable Care Act, the Centers for Medicare and Medicaid Services ("CMS") established a risk adjustment program, which created a pool that insurers have to either (1) pay into if their members have lower than average risk or (2) receive money from if their members have higher than average risk. Insurers were required to include in their 2019 rate applications any premium adjustments that reflected federal risk adjustment payments or receipts. Insurers were told by DFS that they should not include any assumptions from the New York State market stabilization regulation (11 NYCRR 361.9), although DFS reserves the right to implement such program for 2019.

There are several items associated with risk adjustment this year that added a great deal of complexity to the 2019 rate setting process. For example, insurers had to use preliminary 2017 risk adjustment results (the most recent data available) to help calculate 2019 rates. Also, the final 2017 risk adjustment results were not available until after the rate applications were filed.

DFS instructed insurers to provide an explanation in their rate applications as to how their 2019 premium rates would need to be modified in the event that actual 2017 risk adjustment results were materially different from the preliminary results. After CMS issued the final 2017 risk adjustment results, DFS consulted each insurer, comparing the final CMS results with insurers' original risk adjustment assumptions to determine whether a modification to 2019 premium rates was warranted.

CDPHP assumed a factor of 1.0117 for risk adjustment. Based on the analysis described above, DFS finds that a factor of 0.9241 is reasonable, which has a -17.4% impact on the requested premium rate.

Federal Repeal of the Individual Mandate Penalty:

The federal Tax Cuts and Jobs Act of 2017 repealed the individual mandate penalty, effective January 1, 2019. While many have claimed that this may put upward pressure on premium rates because healthier people would likely drop insurance coverage for 2019, the exact impact on premiums was difficult to determine because no data yet exists and, to a certain extent, the projections depend on non-financial behavior of insureds in the individual market. DFS reviewed all available literature and requested that insurers submit their estimates of the impact on premiums, which varied widely. DFS also conducted its own analysis based on data received from New York insurers in the individual market. Given all of these factors, DFS limited each insurer's estimate of the penalty repeal to 1.5%. For those insurers that estimated the impact to be less than 1.5%, DFS approved the amount submitted by that insurer.

CDPHP estimated that the repeal of the individual mandate penalty would have approximately a 0.0% impact on rates. Consistent with the above-described methodology, DFS finds this assumption to be reasonable.

Administrative Expense Ratio:

CDPHP assumed an administrative expense ratio of 10.0%. Based on information contained in the rate applications, CDPHP's financial filings, and the average administrative ratios of all insurers, DFS finds an administrative expense ratio of 10.1% to be reasonable.

Profit Objective:

CDPHP assumed a profit ratio of 1.0%. Based on information contained in the rate application, DFS finds this assumption to be reasonable.

Medical Loss Ratio:

With the administrative expense ratio of 10.1% and a profit ratio of 1.0%, CDPHP's projected loss ratio will be 88.9%.

Decision:

Based on the review and analysis described above, DFS finds that the requested increase is unreasonable in that it is excessive in certain respects and inadequate in others, and modifies the increase as shown in the summary chart above.